

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

### **BBF3034—ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS** (All sections / Groups)

22 OCTOBER 2018  
9.00 a.m–11.00 a.m  
(2 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 4 Questions only.
2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- a. There has been a lot of arguments regarding accrual accounting and fair value accounting. Nevertheless, accrual accounting still appears as one of the most frequently used accounting method. Explain in detail the accrual accounting concept in terms of revenue and expense aspects. Furthermore, explain in detail why accrual accounting is favored by users? (12 marks)
- b. Different inventory accounting methods used will produce different amount of gross profit. Thus, you are required to calculate the ending inventory and cost of goods sold under FIFO and Weighted Average Cost. Given that 800 units were sold at the price of RM 40 per unit.

Purchases done by GoldInvest Sdn. Bhd.

Date		Units	Unit Cost (RM)
Jan	Beg. Inventory	400	14
March	Purchase	?	15
May	Purchase	?	16
Sept	Purchase	250	20
Nov	Purchase	100	21

- Note: a) Given that March purchases is half of the beginning inventory.  
 b) The purchases in May was 100 units more than the purchases in March.

Using the information above, compute the gross profit margin for both methods. Comment on the methods used and which method will produce a higher gross profit margin? (13 marks)

(Total: 25 marks)

**Continued...**

**QUESTION 2**

- a. Following is the financial information for BullSmart Sdn. Bhd.. Calculate and interpret the net profit margin, price to earnings, total assets turnover for the year 2017.

	2017	2016
	RM	RM
Gross Profit	24,788	20,971
Cost of Goods Sold	24,211	21,035
Net Profit	3,053	2,879
Total Assets	23,215	19,311
Depreciations	8,456	7,842
Shareholder's Equity	6,840	6,280
Cash Flow from Operations	5,310	3,670
Basic Earnings Per Share	1.31	1.18
Book Value Per Share	2.61	2.46
Closing Share Price	6.88	5.79

(8 marks)

- b. Below is the information provided by Forexsmart Sdn. Bhd. Kindly note that all the sales for the company are on credit at the amount of RM 896,000 and RM 660,000 for 2017 and 2016 respectively. The cost of gold sold for Forexsmart Sdn. Bhd. is RM 245,000 and RM 180,000 for 2017 and 2016 respectively.

	Dec 31, 2017	Dec 31, 2016
	RM	RM
Cash	500,000	480,000
Inventory	256,000	168,000
Short term investment	80,000	70,000
Accounts receivable	180,000	150,000
Property and equipment	300,000	200,000
Accounts payable	120,000	100,000
Accrued income taxes	70,000	50,000
Accrued liabilities	50,000	90,000
Long term borrowing	200,000	300,000
Common Stock	150,000	120,000

- i. Compute and interpret inventory turnover and gross profit margin for the year 2017. (6 marks)
- ii. Compare the current ratio for both 2017 and 2016. Justify which year is better and why it is better for Forexsmart Sdn. Bhd.. (7 marks)

**Continued...**

- c. The required information for Investwin Sdn. Bhd. is shown below for the year 2017. Calculate the return of common shareholders' equity and return of net operating assets. Assume no preferred dividends, tax rate is 40% and all assets and current liabilities are operating.

Statement of Comprehensive Income Data	
Gross Profit	24,500
Operating Income	19,250
Expenses	2,080
Net Profit	17,170

Statement of Financial Position Data	
Current Assets	18,050
Fixed Assets	9,065
Current Liabilities	5,560
Long Term Debt	1,250

(4 marks)

(Total: 25 marks)

### QUESTION 3

- a. Sunther Corporation was established in year 2010. It deals with food production. Within 5 years of starting its operations, the company was listed in the Malaysian stock market. In year 2017, Sunther Corporation recorded sales of RM1million. During this year, its gross profit is 30% of its sales. Sunther's depreciation expense and interest expense are RM60,000 and RM40,000 respectively in year 2017. Its balance sheet for year 2016 and year 2017 are shown below.

**Sunther's Balance Sheet as at December 31**

	2017	2016	Absolute change
Cash & cash equivalents	RM 12,000	RM 5,000	RM7,000
Account receivables	110,000	100,000	10,000
Inventories	110,000	120,000	10,000
Prepaid expenses	20,000	15,000	5,000
Plant asset (net)	350,000	260,000	90,000
Total assets	RM 602,000	RM 500,000	102,000
Accounts payable	RM 32,000	RM 30,000	2,000
Accrued expenses	10,000	10,000	-
Non-current liabilities	160,000	180,000	20,000
Common stock	300,000	200,000	100,000
Retained earnings	100,000	80,000	20,000
Total liabilities and equity	RM 602,000	RM500,000	102,000

Continued...

Construct the statement of cash flow for Sunther Corporation for year 2017 using the indirect method. (Assume a corporate tax rate of 35%). (19 marks)

- b. Rishika Sdn Bhd is listed on the Main Board of Bursa Malaysia. Its book value of equity at beginning of year 1 is RM30,000. In year 1, sales and expenses are forecasted as RM100,000 and RM80,000 respectively. Meanwhile, the net income and dividends in year 1 are expected to be RM20,000 and RM5,000 respectively.

Sales and expenses are expected to increase by 3% every year in year 2, year 3, year 4 and year 5. Dividends in year 2 until year 5 are not expected to change and will remain the same as the dividend in year 1. The abnormal earnings after year 5 are expected to be zero. Determine Rishika's residual income for year 1 and year 2. The company's cost of equity capital is 10% and its cost of debt is 5%. (6 marks)

(Total: 25 marks)

#### **QUESTION 4**

- a. Can we just dispose of financial statement information and focus solely on stock prices as a measure of company performance? Explain your answer. (3 marks)
- b. Given below are the selected ratios for Anna Corporation for end of year 2017.

Working capital	RM10,000
Current ratio	1.5
Cash to current liabilities	0.25
Times interest earned	3

Determine how each of the following independent transactions affects each of the ratios given above. Explain your answer.

- Cash increases by RM20,000. (6 marks)
  - Ending inventory decreases by RM15,000. (6 marks)
  - Ending accounts payable decreases by RM2,000. (6 marks)
- c. What are asset pricing models? Identify the **TWO (2)** dominant asset pricing models. (4 marks)

(Total: 25 marks)

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